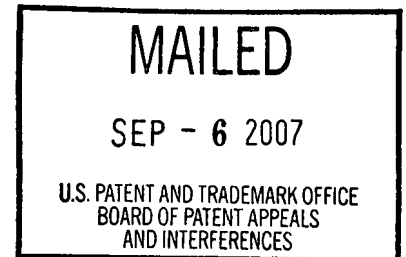


1 RECORD OF ORAL HEARING
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3 UNITED STATES PATENT AND TRADEMARK OFFICE
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6 BEFORE THE BOARD OF PATENT APPEALS
7 AND INTERFERENCES
8

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10 Ex parte STUART SERKIN and PETER MARYTN
11

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13 Appeal 2007-1911
14 Application 09/401,873
15 Technology Center 3700
16



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18 Oral Hearing Held: July 12, 2007
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22 Before STEWART LEVY, LINDA HORNER, and ANTON FETTING
23 Administrative Patent Judges
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27 ON BEHALF OF THE APPELLANT:

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35 The above-entitled matter came to be heard on July 12, 2007, at the
36 United States Patent and Trademark Office, 600 Dulany Street, Alexandria,
37 Virginia, before Virginia Johnson, Reporter.

PROCEEDINGS

JUDGE LEVY: You can proceed at any time. We are already familiar with the case.

MR. MALLOY: Okay. Thank you. I'd like to discuss today claims 1, 5, 14, 16 and 21 and devote most of my time to claim 1.

Claim 1 is directed to a corporate facility for electronic market and claim 1 includes 2 novel features. The first novel feature is a combination of things to provide a single common point of entry for coupling order delivery systems and quote entry systems. And the second feature is an order routing execution manager that either provides for all orders received by interface, the common point of delivery, of executions or routing of orders in accordance with the parameters of the order. The combination of these nominal features addresses two fundamental problems and proposed by the SEC rules that mandate display of customer orders and which is respect to the -- base and the technical problems which arise with respect to the dual liability of certain types of market participants, such as electronic communication networks, commonly called ECN's, that make display quotes in markets such as NASDAQ when the ECN actually also has the same quote displayed in its own system. And because of the nature of two different types of execution and negotiation systems that are employed in electronic markets, ECN generally will not accept what's called auto execution of its orders as it's delivered to a market such as NASDAQ, because, to do so, would open them up to the possibility that that order might be executed on a NASDAQ stock market and, thereafter, the order might also be hit on their own system. And in order to fulfill the order on

1 their own system they'd have to take proprietary position where they supply
2 the security or buy the security itself. Market makers are -- for example,
3 take proprietary positions all the time, but they post quotes for what they're
4 willing to buy and sell the securities for. Each -- in contrast, basically just
5 display customer orders and try to match up customer orders on their
6 internal networks, but because of the confluence of markets and the --
7 foreign exchanges of markets -- there have been many endeavors,
8 particularly back in the late '90's, involving -- trade all these markets. And
9 this is -- essentially a way of integrating these types of markets, exchanges
10 and electronic --

11 JUDGE LEVY: One question.

12 MR. MALLOY: Yes?

13 JUDGE LEVY: When an ECN matches a buy or sell order, isn't that
14 an execution?

15 MR. MALLOY: What's the question again?

16 JUDGE LEVY: When an ECN actually makes a match --

17 MR. MALLOY: First word?

18 JUDGE LEVY: When an ECN actually matches a buy order with a
19 sell order, doesn't that constitute an execution?

20 MR. MALLOY: It actually matches a sell order, it actually -- well,
21 when a buy order and a sell order are matched up and both orders are
22 verified that they are legitimate orders, I would say at some point that's an
23 execution. That's correct.

24 JUDGE LEVY: Okay.

25 MR. MALLOY: Now what happens in the system that we're talking
26 about, in the NASDAQ system, or the system that's described, that's recited

1 in claim 1, there are two different ways in which what has quote/unquote
2 been executed, one is that they execute it within the system automatically by
3 pairing off some order that's entered into the system. We either quote or
4 order in our existing system. And the other way is that there is a delivery of
5 that order to another market center for execution. And then there is actually
6 a third way in which -- which I think is kind of a subset of the second way,
7 in which a market maker or a market participant, I should say, will actually -
8 - an order in the negotiation pane or montage that is essentially the same
9 montage as shown in figures 4 and 5 in Korhammer and the bottom portion
10 of the montage that is shown in figure 9 of our application. So sometimes
11 the system that we're describing here in claim, reciting here in claim 1, will
12 automatically execute the order, satisfy the order, and other times it will
13 send it out to another marketplace to satisfy the order. So, with respect to
14 ECNs, that poses a problem for ECNs because if the ECN were to accept
15 automatic execution, then they could be liable for -- for essentially filling
16 that order twice --

17 JUDGE LEVY: So that's the same problem, excuse me --

18 MR. MALLOY: -- network and once on the network that's
19 encompassed, for example, in the NASDAQ stock market, or in other
20 markets, electronic markets, so this is a way, by having everything going to
21 one system and coming out of one system, that they can avoid this issue of
22 dual liability. Having everything go into one system is a way in which every
23 entity that operates in a market, that has some sort of obligation to display
24 customer limit orders, you know, and have their own proprietary interests,
25 are able to do that. For reasons which are probably beyond my expertise in
26 understanding how markets work, many market strategies involve -- or price

1 you buy a security at, and also who you buy a security from, and for reasons
2 which are not necessarily really important to our discussion here, it's just
3 important to understand that -- the fact that a market maker, for example, for
4 NASDAQ can post a quote on an ECN, but that quote, if the market maker
5 posts that quote on an ECN at 50% or better price and the market maker is
6 quoting in NASDAQ, the market maker has to make that quote available to
7 people in NASDAQ, actually displayed in the NASDAQ system. And, in
8 order for that to happen, the market maker would have to, basically, make
9 that quote its own proprietary quote in NASDAQ and there may be reasons
10 why they don't want to do that. This is a mechanism that allows them to do
11 that by having this -- we'll actually get there a little later, by having this
12 different montage that allows you to have attributable and non-attributable
13 interests. So to get back to claim 1, I'll address it a little bit, the examiner
14 takes the position that Korhammer teaches the first element in claim 1. The
15 Korhammer, indeed, comes close to teaching this element, but I don't think
16 actually, really actually does teach the element because the element does call
17 for coupling of quote entry and order delivery systems to its interface, as
18 shown for example, in our figure 2A and figure, I believe it's figure 1,
19 particularly figure 1. And Korhammer basically will take these coupled
20 ECNs to their electronic interface and will couple the NASDAQ stock
21 market's electronic interface, but they don't couple, quote, delivery system,
22 quote, entry system such as represented in figure 1 of our application in 12C.
23 Those are coupled to the NASDAQ stock market system and NASDAQ will
24 then, they'll be coupled in the NASDAQ system. So this doesn't really meet
25 all the elements of claim 1 and because of delays inherent in all these
26 systems it might not necessarily provide a solution to the display, to the

1 order display rules, which Korhammer does recognize as the arrangement
2 that's covered by claim 1. More importantly I think, however, with respect
3 to the novelty in claim 1, is actually this issue about an order routing
4 execution manager to provide for order delivery, delivery by common face,
5 either a single point delivery or a -- of orders in accordance with the
6 parameters of the order. So the importance of the parameters of the order
7 basically have to do as to whether or not the order is a negotiation order
8 that's selected by a market maker, looking at the bottom of the montage on
9 figure 9, whether it's an order that comes in from an ECN or whether it's
10 simply to someone hitting against the inside price, or whether it's something
11 coming in from an ECN that does not accept order execution. Korhammer
12 does not describe any order execution in its system, it does not address order
13 execution. It addresses order negotiation because it describes the NASDAQ
14 select --, but does not describe the seller system, which is the order
15 execution engine in NASDAQ. And, therefore, Korhammer cannot get all
16 the quotes that are actually in the NASDAQ system, since they are not, they
17 don't accept auto execution. On the other hand, Korhammer also does not
18 attempt to address this issue of dual liability because Korhammer does not
19 actually execute anything. Korhammer sends everything out to different
20 corporate venues for execution at the sources where the orders came from.
21 So, essentially, Korhammer can be viewed as a tool to collect orders in a
22 market, but that tool does not have included with it any facility for execution
23 of those orders. So --

24 JUDGE LEVY: I'm sorry?

25 MR. MALLOY: So the examiner kind of takes the position that
26 Korhammer somehow describes this particular feature of the order of

1 execution routing manager, but it doesn't ever really address where that
2 feature is and it sort of takes the position that -- I'm sorry, the examiner sees
3 that Korhammer does not describe the order of execution routing manager as
4 was claimed in claim 1. It relies upon this second reference called RAI
5 which, in my view, is not at all relevant to the subject matter of either the
6 claims or Korhammer, but essentially addresses an I88802.3 standard for a
7 wireless, for wireless networks and specifically addressed to a single access
8 hub, so I guess the examiner's argument is that it would be obvious to
9 centralize something. And, if that's the case, the examiner probably should
10 have just simply stated that because it may have been more forthright in the
11 rejection in terms of redirecting because I think RAI basically just not at all
12 relevant to these teachings for the reasons that I discussed in my brief. But
13 I'd like to, if I can, touch on claims 5 and claims 14.

14 JUDGE LEVY: Before you head on --

15 MR. MALLOY: Claims 5 --

16 JUDGE LEVY: Hello?

17 MR. MALLOY: Claim 14, claim 14 is directed to certain different
18 aspects --

19 JUDGE LEVY: Can you hear me?

20 MR. MALLOY: Yes.

21 JUDGE LEVY: Okay. Before you move on --

22 MR. MALLOY: Okay.

23 JUDGE LEVY: Before you move on, I want to make sure I'm on the
24 right wave; this application has a priority date of September 23, '99, is that
25 accurate?

26 MR. MALLOY: That's correct.

1 JUDGE LEVY: Can you -- there is a reference that's come to our
2 attention; it does not appear to be in the record, I'm wondering if you could
3 speak it. It's NASD proposed rule making about a year and a half prior to
4 that. Their rule 98-17, which did in fact propose a integrated order and
5 execution delivery system to combine the facilities of SelectNet and the
6 SOES and provide for the possibility of anonymity of the displayed quotes,
7 which sounds an awful lot like the points that you're saying that the
8 examiner has not been able to find in Korhammer.

9 MR. MALLOY: Well --

10 JUDGE LEVY: Can you speak, are you in a position to speak to
11 that?

12 MR. MALLOY: How would I get access to that?

13 JUDGE LEVY: It's on the SEC site. We'll certainly send it, you
14 know, out but I got it off of the SEC site and I'm certain NASD must have a
15 copy since it's their own proposed rule making. It was published in the
16 Federal Register on Thursday, March 12, 1998 on page 12124. Again, it is
17 their Notice of Proposed Rule Making SR-NASD-98-17. And they actually
18 had a promotional release --

19 MR. MALLOY: What -- NASD what?

20 JUDGE LEVY: 98-17.

21 MR. MALLOY: 98-17.

22 JUDGE LEVY: And they had a promotional bulletin that gave high
23 level details on October 9, 1997 that is on the NASD website.

24 MR. MALLOY: Well, all right. I will have to -- that's --

25 JUDGE LEVY: Okay. So you're not in a position to discuss it this
26 morning?

1 MR. MALLOY: No, I'm not at all. I've never heard of this. This is
2 the first I've heard of this. I'm not sure if you're aware of this or not, the
3 NASD at one time owned the NASDAQ stock market. It no longer does.

4 JUDGE LEVY: Okay.

5 MR. MALLOY: -- around 2002, maybe 2003 and, you know, I
6 represent NASDAQ on this grant, not NASD.

7 JUDGE LEVY: Okay. All right. So, okay, so you're going to follow
8 up on that. Okay. You can continue with your claims this morning.

9 MR. MALLOY: So on claim 5 and claim 14 claim similar subject
10 matter and claim 5 depends upon claim 1. It includes the feature of a
11 montage manager displaying quotes in an aggregate montage or a current
12 quote montage -- quotes and, essentially, the elements of this claim which
13 distinguish over the reference are that one, we're talking about an aggregate
14 montage and a current quote montage, the two means that we get to these
15 different portions of the figure shown in -- of the montage, -- montage
16 shown in figure 5, I'm sorry, figure 9. And the fact is that -- where these
17 things are displayed is a function of the parameters as specified in the
18 particular quotes. And claim 14 goes into this in a little more detail in that it
19 describes that quote manager displaying these quotes received in an
20 aggregate montage and an attributable quote montage which, again, are the
21 same two montages we're talking about in claim 5, depending upon where
22 the quotes are attributable, and in accordance with the parameters specified
23 in the quotes. So what is meant by attributable, I think, is quite well covered
24 in the specification, is that you can have some quotes which are meant to be
25 displayed at the top part of figure 9, and those, as part of the totals, in those,
26 in that -- and the -- attributable montage and they're not meant to be

1 attributable and if they are meant to be attributable then they're displayed in
2 the bottom part of the montage on figure 9 with the market maker or the
3 ECNs market participating ID. So duplicate market maker ECN 1, for
4 example, could have a quote, or in this case it would be an order, displayed
5 on the bottom part of figure 9 and also have something similar displayed on
6 the top, in the non-attributable portion of display, in the top part of figure 9.
7 And this is a way for the ECN to put more interest into the market while --
8 having an interest displayed as a quote, which is -- which can be observed by
9 every participant in the market. And, at the same time, with respect to
10 market makers, it allows the market makers to satisfy their obligations under
11 the display order rules without having to change them to proprietary quotes,
12 for example. So that market maker can -- in fact have a better quote in the
13 system and display, in the upper portion of that montage, or that bottom
14 portion, so it would be representing a quote, representing an order that the
15 market maker choose, sent down to an ECN. There is no way they can
16 satisfy those obligations and still -- the fact that that order is attributed to
17 them --. So that neither Korhammer nor RAI nor Smith which, you know,
18 the reference that the examiner uses, describes any of those features in either
19 claims 5 or claim 14. And claim 16 kind of, sort of limits claim 14 and it
20 really has to do with the issue of -- . Korhammer clearly describes that an
21 ECN could have multiple prices in the --- montage that they show in figure
22 5. However, the claim is really directed to having multiple flex levels in the
23 aggregate montage. In other words, the, if you look at figure 9, the \$20.00,
24 \$199.95 and \$19.90 bids and the corresponding -- side market 2005, 2010 to
25 2015. Past prices in the aggregate montage 202, which is something that
26 Korhammer does not have, so Korhammer displays multiple prices for an

1 ECN but it does not display multiple price laws. With respect to claim 21,
2 claim 21 includes similar features as claim 14 except, however, it's directed
3 to a computer program, not to the extent that the Board feels the claims are
4 drafted in a manner that's not necessarily consistent with the statutory
5 subject matter. We feel though that those claims, those types of rejections
6 can easily be overcome and, in fact, would not apply to claim 21. Now, I'd
7 like to get back to, for a moment, to this reference that you discovered. You
8 want me to take a look at this reference, and what would you like me to do
9 with that, because we're at the point now where --

10 JUDGE LEVY: No, I wanted to know whether you were in a
11 position to discuss it.

12 MR. MALLOY: No, I never heard of this reference.

13 JUDGE LEVY: It will clearly go out with our opinion.

14 MR. MALLOY: Okay.

15 JUDGE LEVY: We would not expect you to comment upon it prior
16 to our opinion.

17 MR. MALLOY: Okay. All right. --

18 JUDGE LEVY: Can I ask you one question?

19 MR. MALLOY: And see if they know anything about it. That, that's
20 gone through many, many changes in personnel over the 8 or so years that I
21 represented them and whether there is anybody there that really knows
22 anything about this, I don't so. I certainly can figure out where this reference
23 is at exactly -- . Was it something that was published at the behest of --
24 stock market? It must have been because any -- is the way the total
25 organization was set up.

26 JUDGE LEVY: Well, it was published in the Federal Register as

1 well.

2 MR. MALLOY: Okay. So it's March 12, 1998 Federal Register,
3 page 12124?

4 JUDGE LEVY: Yes. With regard to your claims on the montage --

5 MR. MALLOY: Yes.

6 JUDGE LEVY: It's pretty clear to me that Korhammer does how a
7 montage with individual quotes that attribute to the individual market
8 makers. Do you agree with that?

9 MR. MALLOY: Yes they do.

10 JUDGE LEVY: Why isn't it, under a 103, just a foreseeable variation
11 to have summary levels of a report, you know, that show totals and once you
12 start totaling things after use, attribution no longer becomes relevant. I
13 mean, --

14 MR. MALLOY: Well, because the difference is that the claim
15 language, the difference is that a quote comes in for a market maker two, for
16 example, in my figure 9, that quote may or may not, may not be added, may
17 or may not be added to the top part of that montage, where in Korhammer
18 system, if Korhammer has two quotes and, for example, Korhammer has a
19 situation with ECN where -- interrupt her for a second. You're looking at
20 the picture of 5 Korhammer, you know, shows multiple quotes for Highland,
21 for example --

22 JUDGE LEVY: Right.

23 MR. MALLOY: And clearly Korhammer can add those quotes
24 together. That would probably address your argument. But what we're
25 talking about is something different, in our system the market maker or the
26 ECN who are, I think, supposed to be the market experts, particularly the

1 ECNs, that market maker will determine whether or not that quote gets
2 displayed on the bottom part of that montage or the top part of that montage,
3 or both. It's basically covered by the order, so there may be reasons why
4 market maker two may not want to have their second quote displayed in that
5 pane 204. In Korhammer's system, if market maker two had two quotes in
6 there they would both be displayed. In Korhammer market maker two
7 cannot have two quotes, but assuming that they could, like for example,
8 Highland can have two quotes in figure 5 in Korhammer, and it won't
9 display. Highland has no way of displaying that second quote from
10 Korhammer without actually attributing it to Korhammer. Whereas in our
11 system, that second quote could potentially get displayed by it being part of
12 the total of the aggregate quotes that are in pane 202 of the montage 200. Is
13 that different?

14 JUDGE LEVY: I understand what you're saying.

15 MR. MALLOY: Did I explain that difference correctly?

16 JUDGE LEVY: I understand what you're saying.

17 MR. MALLOY: Okay. So there's extended functionality, if you
18 will, that describes the claim in our application that's not suggested, in our
19 view, in Korhammer.

20 JUDGE LEVY: Okay. I have no further questions. Do you?

21 JUDGE HORNER: No.

22 JUDGE FETTING: No.

23 JUDGE LEVY: Okay. Well, thank you very much.

24 MR. MALLOY: Thank you.

25 Whereupon, the proceedings concluded.